LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7215 | **DATE PREPARED:** Jan 3, 2002
BILL NUMBER: SB 380 | **BILL AMENDED:**

SUBJECT: Venture capital tax credit.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides that a taxpayer that invests seed venture capital or early stage venture capital in a qualified Indiana business is entitled to a credit against the taxpayer's state tax liability equal to 20% of the amount of the investment.

Effective Date: July 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Under the bill, the taxpayer would have to claim the tax credit on a state tax return or returns in a manner prescribed by the DOR. In addition, the bill would require the taxpayer to provide the DOR with proof of the venture capital investment and all information that the DOR determines necessary for the calculation of the tax credit.

Explanation of State Revenues: This bill establishes a Venture Capital Investment Tax Credit effective for tax years beginning January 1, 2003. The bill could potentially reduce revenue from various state taxes by an indeterminable amount beginning in FY 2004.

Under the bill, a taxpayer (individual or entity) would be entitled to a nonrefundable tax credit equal to 20% of investments of seed venture capital or early stage venture capital in a qualified Indiana business. The credit could be taken against a taxpayer's Corporate Gross Income Tax, State Gross Retail and Use Tax, Adjusted Gross Income (AGI) Tax, Supplemental Corporate Net Income Tax, Bank Tax, Savings and Loan Association Tax, Financial Institutions Tax, or Insurance Premiums Tax liability. If the amount of the credit exceeds the taxpayer's liability, the excess credit could be carried forward in subsequent years. A taxpayer would not be entitled to a carryback or a refund of any unused credit. If a pass through entity does not have a tax liability, the credit could be taken by shareholders, partners, or members in proportion to their distributive income from the pass through entity.

Revenue from Individual and Corporate Income taxes, the Sales and Use Tax, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. A percentage of revenue from the Corporate AGI Tax is also distributed to the Property Tax Replacement Fund. A percentage of revenue from the Sales and Use Tax is also distributed to the Public Mass Transportation Fund, the Industrial Rail Service Loan Fund, and the Commuter Rail Service Fund. Also, local units receive revenue from the Financial Institutions Tax equal to the amount of financial institutions tax revenue received in 1989 minus the amount received in the year from property taxes attributable to personal property of banks.

Venture Capital Definitions: The bill defines *seed venture capital* as "a relatively small amount of capital provided to an entrepreneur to be used to prove the viability of a business concept or to commercialize an idea." The bill also defines *early stage venture capital* as "capital that is provided to a company that has expended seed capital and needs additional funding."

Qualified Indiana Business: Under the bill, a qualified Indiana business would have to be independently owned and operated, and would have to meets all of the following conditions:

(1) Is a high growth company with high skilled jobs (see definition of *high growth company with high skilled jobs* below).
(2) Has its headquarters in Indiana.

(3) Employs at least 70% of its employees in Indiana where at least 95% of the employees reside.

(4) Is in need of seed or early stage venture capital and is unable to obtain capital using conventional financing.

(5) Is not involved in real estate; real estate development; insurance; professional services provided by an accountant, a lawyer, or a physician; retail sales, except when the primary purpose of the business is the development or support of electronic commerce using the Internet; or oil and gas exploration.

Current statute defines a *high growth company with high skilled jobs* as a company that meets the following three conditions:

(1) Had at least 15% average annual earnings growth in the past three years; is entering a new product or process area; or is classified in an industry that had at least 15% average annual earnings growth in the past three years.

(2) Has a substantial number of employees in jobs either requiring post-secondary education or its equivalent, or that are in occupational codes classified as high skill by the U. S. Bureau of Labor Statistics.

(3) Has a substantial number of employees that earn at least 150% of Indiana per capita personal income.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: